BANK OF CANADA
BANQUE DU CANADA

# Quarterly Financial Report

30 September 2012

Unaudited

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# Context of the Quarterly Financial Report

The Bank of Canada (the Bank) develops and implements policy within its mandate, specifically in relation to its four core functions: monetary policy, the financial system, currency and funds management. The activities and operations of the Bank are not undertaken with the objective to generate revenue or profits and cannot be fully captured in a discussion of the financial statements. While the Bank provides full disclosure of its activities in its financial statements, those statements alone do not permit a full understanding of the Bank's activities.

The Bank's *2011 Annual Report* includes the Management's Discussion and Analysis (MD&A) for the year ended 31 December 2011. The MD&A provides a detailed analysis of the Bank's operations and how they affect its financial results, its capability to deliver results and key areas of risks. Disclosures and information in the *Annual Report* and the MD&A are assumed to apply to the current quarter unless otherwise updated in this report.

This *Quarterly Financial Report* should be read in conjunction with the financial statements included in this *report* and with the *2011 Annual Report*.

This discussion has been prepared in accordance with section 131.1 of the Financial Administration Act and follows the guidance outlined in the Standard on Quarterly Financial Reports for Crown Corporations issued by the Treasury Board Secretariat. The preparation of this report is the responsibility of Management, and the report was approved by the Audit and Finance Committee of the Board of Directors.

# Financial Outlook and The Medium-Term Plan (2010–12)

The three-year medium-term plan (MTP) is the main planning tool the Bank uses to establish its strategic priorities. The priorities set out in the current MTP are to conduct leading research and policy analysis; to strengthen business resilience and infrastructure; to attract, retain and engage employees; and to unveil and issue a new series of bank notes.

As described in the MD&A, the Bank monitors its expenses in two ways: total operating expenses as reported in the Bank's financial results in accordance with International Financial Reporting Standards (IFRS) and MTP operating expenses,[1] which are a subset of the total operating expenses reported in the financial statements.

The Bank projects its operating expenses in connection with the medium-term plan. Consistent with the commitment made in late 2010, when the 3-year MTP financial plan was updated in response to federal government guidelines, the Bank's 2012 financial plan held MTP operating expenses at $342 million. At the start of the 2012 fiscal year, MTP expenses were expected to be higher in 2012 than in 2011 as a result of the timing for costs associated with the Bank's multi-year projects.

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[1] MTP operating expenses are considered a non-IFRS measure that does not have a standardized meaning. MTP operating expenses are described in the MD&A and exclude costs that have a record of volatility or that cannot be accurately predicted.

After the first nine months of 2012, MTP operating expenses are slightly below plan. It is anticipated that the Bank will finish the 2012 fiscal year with MTP operating expenses marginally below plan.

### Expenses excluded from the MTP

*Bank notes*
Costs related to the production of bank notes vary with volumes and are excluded from the MTP financial plan. The Bank planned for increased bank note production costs in 2012 associated with the launches of the $50 denomination and widely-used $20 denomination of the *Polymer* series. Although the initial cost of producing the polymer notes is higher, they are expected to last 2.5 times longer than the previous cotton-based paper notes.

The $50 denomination of the *Polymer* series was launched in March 2012, and subsequent to the quarter end, the $20 denomination launched on 7 November 2012.

Costs associated with bank note production for the first nine months of 2012 are below plan but are higher than the previous year. It is anticipated that the Bank will finish 2012 with bank note costs that are below the $150 million plan, owing to changes in expected production volumes of the $50 and $20 denominations in the *Polymer* series. For the first nine months of 2012, bank note costs were $68.1 million, an increase of $40.1 million as compared with the same period of 2011.

*Deferred employee benefits*
Expenses for non-current deferred employee benefits are excluded from the MTP financial plan as they are subject to volatility because of changes in discount rates. These costs were expected to be approximately $8 million higher in 2012 than the previous year as a result of a 115 basis points decrease in the discount rate.

***Capital spending***
Capital expenditures of $55 million for ongoing operations and strategic investments are expected in 2012. Total capital spending for the first nine months of 2012 was $31 million.

### *Statement of Financial Position*

In connection with the Government of Canada's prudential liquidity-management plan, government deposits held at the Bank were expected to increase by $10 billion in the fiscal year 2012. At 30 September 2012, the deposit associated with the prudential liquidity-management plan was $8 billion.

# Financial Discussion

## Highlights of the Statement of Financial Position (unaudited)

(Millions of Canadian dollars)

| | 30 September 2012 | 31 December 2011 | Change in $ | Change in % |
|---|---|---|---|---|
| **Assets** | | | | |
| Cash and foreign deposits | **4.4** | 11.7 | (7.3) | (62.4) |
| Loans and receivables | **100.9** | 1,530.8 | (1,429.9) | (93.4) |
| Investments | **72,855.8** | 62,424.2 | 10,431.6 | 16.7 |
| Property and equipment | **183.7** | 176.6 | 7.1 | 4.0 |
| Intangible assets | **52.3** | 44.6 | 7.7 | 17.3 |
| Other assets | **48.3** | 59.3 | (11.0) | (18.5) |
| | **73,245.4** | 64,247.2 | 8,998.2 | 14.0 |
| **Liabilities and Equity** | | | | |
| Bank notes in circulation | **60,342.2** | 61,028.8 | (686.6) | (1.1) |
| Deposits | **11,942.2** | 2,481.0 | 9,461.2 | 381.3 |
| Other liabilities | **533.9** | 312.8 | 221.1 | 70.7 |
| Equity | **427.1** | 424.6 | 2.5 | 0.6 |
| | **73,245.4** | 64,247.2 | 8,998.2 | 14.0 |

At the close of the third quarter of 2012, the Bank had assets of $73,245.4 million, an increase of 14.0 per cent compared with year-end 2011. This increase was driven largely by a rise in the Bank's liabilities resulting from higher deposits held at the Bank related to the Government of Canada's prudential liquidity management plan.

*Loans and receivables* decreased by $1,429.9 million since 31 December 2011. Purchase and resale operations were not required at the end of September. At 30 September 2012, *Loans and receivables* of $100.9 million consisted primarily of advances issued in connection with settlement balances in the Large Value Transfer System.

*Investments* increased by $10,431.6 million, owing primarily to purchases of Government of Canada bonds to match a higher level of deposits held for the government's prudential liquidity-management plan. Government of Canada bonds increased by $9,789.2 million and Government of Canada treasury bills increased by $634.4 million, with the balance of the increase resulting from fair-value changes in the Bank's investment in the Bank for International Settlements (BIS).

The increases in *Property and equipment* and *Intangible assets* resulted from capital spending of $31.0 million, which was offset by depreciation and amortization of $16.2 million. Capital spending during the first three quarters of 2012 included $14 million related to the Enhanced Business-Continuity Program and the refurbishment of elevators at the head office complex. In

addition, $17 million was spent to upgrade aging systems as outlined in the MTP. The largest initiative is the Auctions and Market Applications Program, which aims to support end-to-end post-trade processing and to strengthen business-continuity capacity.

*Other assets* decreased by $11.0 million since 31 December 2011, owing mainly to a lower accrued pension benefit asset as a result of actuarial losses recorded in 2012. This loss is the result of reductions during the fiscal year in the discount rate used to value the defined-benefit obligations as described in the section Other Comprehensive Income.

Liabilities from *Bank notes in circulation* decreased by $686.6 million (1.1 per cent) since 31 December 2011, reflecting the seasonal trends over the period.

The main components of the *Deposits* liability are $2,380.5 million held for the Government of Canada for operational balances and $8,000 million held for the government's prudential liquidity-management plan. The operating portion of the deposit is dependent on the cash needs of the Government of Canada, and fluctuations that occur are a result of cash-flow management decisions. Deposits at 30 September 2012 increased by $9,461.2 million compared with year-end 2011, predominantly as a result of the growth in the deposit for the prudential liquidity-management plan.

*Other liabilities* rose by $221.1 million compared with year-end 2011, largely as a result of a higher balance owing to the Receiver General for Canada. Net income earned on the Bank's assets, after deduction for operating expenses and allocations to reserves, is paid each year to the Receiver General. At 30 September 2012, the unremitted balance was $251.0 million[2] ($78.4 million at 31 December 2011). Also contributing to the increase in *Other liabilities* is an increase in the post-employment defined-benefit obligation due to a decrease in the discount rate used to value the obligations.

Since 31 December 2011, the Bank's *Equity* has been affected by an increase of $2.5 million in fair-value changes related mainly to the Bank's investment in the BIS, which was reported in *Other Comprehensive Income* and accumulated in the available-for-sale reserve within *Equity*.

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[2] For the nine months ended 30 September 2012, the Bank transferred cash payments of $78.4 million related to 2011 net income and $525 million related to 2012 net income to the Receiver General ($126.1 million related to 2010 net income and $675 million related to 2011 net income was transferred during the nine months ended 30 September 2011).

## Highlights of the Statement of Comprehensive Income (unaudited)

Results for the three- and nine- month periods ended 30 September 2012
(Millions of Canadian dollars)

| | Three-month period ended 30 September | | Change in | | Nine-month period ended 30 September | | Change in | |
|---|---|---|---|---|---|---|---|---|
| | 2012 | 2011 | $ | % | 2012 | 2011 | $ | % |
| **Income** | | | | | | | | |
| Interest revenue | **422.7** | 401.7 | 21.0 | 5.2 | **1,227.3** | 1,218.4 | 8.9 | 0.7 |
| Interest expense | **(24.6)** | (5.8) | (18.8) | (324.1) | **(57.0)** | (16.6) | (40.4) | (243.4) |
| Other revenue | **2.3** | 2.3 | 0.0 | 0.0 | **7.2** | 6.9 | 0.3 | 4.3 |
| Total income | **400.4** | 398.2 | 2.2 | 0.6 | **1,177.5** | 1,208.7 | (31.2) | (2.6) |
| **Expenses** | | | | | | | | |
| Staff costs | **41.5** | 34.8 | 6.7 | 19.3 | **130.6** | 117.0 | 13.6 | 11.6 |
| Bank note research, production and processing | **30.8** | 4.3 | 26.5 | 616.3 | **68.1** | 28.0 | 40.1 | 143.2 |
| Premises maintenance | **6.6** | 6.6 | 0.0 | 0.0 | **19.0** | 18.1 | 0.9 | 5.0 |
| Technology and telecommunications | **7.5** | 7.6 | (0.1) | (1.3) | **19.8** | 17.8 | 2.0 | 11.2 |
| Depreciation and amortization | **5.5** | 4.3 | 1.2 | 27.9 | **16.2** | 12.9 | 3.3 | 25.6 |
| Other operating expenses | **18.3** | 19.1 | (0.8) | (4.2) | **56.2** | 57.0 | (0.8) | (1.4) |
| Total expenses | **110.2** | 76.7 | 33.5 | 43.7 | **309.9** | 250.8 | 59.1 | 23.6 |
| **Net Income** | **290.2** | 321.5 | (31.3) | (9.7) | **867.6** | 957.9 | (90.3) | (9.4) |
| **Other Comprehensive Income** | **(52.1)** | (65.7) | 13.6 | (20.7) | **(89.1)** | (44.6) | (44.5) | 99.8 |
| **Comprehensive Income** | **238.1** | 255.8 | (17.7) | (6.9) | **778.5** | 913.3 | (134.8) | (14.8) |

The Bank's assets and liabilities support its functional mandates. As a result, its activities and operations are not undertaken to maximize net income. The Bank's primary source of income is interest revenue derived from investments in Government of Canada securities and will fluctuate based on market conditions.

Year-to-date results are predominantly consistent with the trends and impacts for the quarter ended 30 September 2012.

### Income

Total income for the third quarter of 2012 was $400.4 million, an increase of $2.2 million, or 0.6 per cent, compared with the same period in the previous year. On a year-to-date basis, income decreased by $31.2 million, or 2.6 per cent, compared with the same period in 2011. Lower income results from lower yields on government securities in 2012 compared with 2011.

For the nine months ended 30 September 2012, the Bank's interest revenue of $1,227.3 consists predominantly of interest revenue from treasury bills and bonds which increased $8.6 million for first nine months of 2012 compared with the same period in 2011. The growth in interest revenue can be attributed to the higher levels of investments which is offset by lower yields on newly acquired treasury bills and bonds compared with yields on maturing investments.

Interest earned on purchase and resale agreements and dividend revenue from the Bank's investment in the BIS are fairly consistent with 2011 levels.

Income is reported net of interest paid on Government of Canada deposits. The higher level of Government of Canada deposits increased the interest expense on deposits by $18.8 million in the third quarter, and by $40.4 million year-to-date, compared with the same periods in 2011. Interest rates paid on deposits are based on market-related rates and have not changed significantly over the comparable periods in 2011.

The Bank's revenues from its remaining sources increased slightly from 2011 levels.

### Expenses

Operating expenses are in line with expectations for 2012 and have increased compared with the previous year mainly as a result of costs associated with the launch of the polymer bank note series and normal fluctuations in operating expenses. Expenses in the quarter were $33.5 million higher than the same period in the previous year. On a year-to-date basis, expenses increased by $59.1 million compared with 2011.

Costs associated with bank note production were $26.5 million higher in the quarter, and $40.1 million higher year-to-date, compared with the same periods in 2011. The increase in costs was the result of an increase in the volume of notes received, and a higher unit cost[3] to produce the new *Polymer* series notes than to produce the cotton-based notes. During the first nine months of 2012, 316 million polymer notes were received compared with 210 million cotton-based notes in the same period in 2011.

Excluding the impact of the new bank notes, the year-to-date increase in expenses is $19 million and is broadly distributed between staff costs, technology costs and depreciation. The year-over-year growth in expenses is mainly owing to the timing of costs associated with the Bank's multi-year strategic investment projects, and higher costs for deferred employee benefits plans as a result of changes in the discount rate.

Staff costs increased by $6.7 million in the quarter and by $13.6 million for the first three quarters of 2012, compared with the same periods in 2011. Increased costs resulted from additional term resources related to strategic projects and higher benefit costs associated with the Bank's deferred employee benefit plans.

Higher technology costs of $2 million for the first nine months of 2012 are the result of investments made to improve the IT business systems.

Depreciation and amortization costs increased by $1.2 million for the quarter, and $3.3 million year-to-date, compared with the same periods in 2011. The increased costs are consistent with the increases in depreciable assets as anticipated in the MTP.

Other operating expenses, including premises maintenance, are consistent with 2011 levels.

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[3] The new polymer bank notes are expected to last at least 2.5 times longer than the cotton-based paper notes.

### Net income

*Net income* was $290.2 million for the quarter and $867.6 million year-to-date. Lower net investment income and increased expenses resulted in decreases of $31.3 million and $90.3 million, respectively, compared with the same periods in 2011.

### Other Comprehensive Income

*Other Comprehensive Income* of -$52.1 million for the quarter consists of a decrease of $10.8 million in the fair values of available-for-sale (AFS) assets and actuarial losses of $41.3 million on the Bank's deferred employee benefit plans. On a year-to-date basis, *Other Comprehensive Income* includes AFS fair-value increases of $2.5 million and actuarial losses of $91.6 million.

AFS assets comprise Government of Canada treasury bills and the Bank's investment in the BIS. Fair-value changes are accumulated in the reserve for AFS assets within the Bank's *Equity*. As at 30 September 2012, this reserve totalled $297.1 million and consists primarily of the fair-value change in the Bank's investment in the BIS.

Under IFRS, the Bank recognizes all actuarial gains and losses on post-employment benefits immediately in *Other Comprehensive Income* at each reporting period. Actuarial losses are affected by the actual return, compared with the expected return, on plan assets, and the discount rate used to determine defined-benefit obligations. The actuarial losses recorded in 2012 are the result of a reduction in the discount rate used to value the defined-benefit obligation which was offset by higher returns on plan assets.

## Operational Highlights and Changes

The following significant changes in operations, personnel and programs have occurred since 30 June 2012.

### Operations and Programs

During the quarter, the Bank's Board of Directors approved the program to overhaul and modernize the aging head office building. The majority of the Bank's 1,200 staff work in the head office facility and it is home to a number of specialized activities. These include $15 billion of payments processed daily by the Bank within the high value payment system; a trading floor that manages more than $600 billion in federal government debt and $68 billion in foreign reserves; specialized currency laboratories; and leading-edge economic and financial analysis.

A resilient work facility is critical for the Bank to continue to fulfill its mandate. Core systems in the building have reached the end of their lifespan. The building is 35 years old: wiring, plumbing, heating and ventilation must be updated. The facility also needs to be brought up to current building, seismic and fire safety standards to provide a safe and healthy work environment for staff. As well, the security needed for the facility has evolved since the 1970s, when the current building was constructed, and must be upgraded. The renewed facility will be environmentally efficient, will make more efficient use of space, and will be cheaper to operate.

The Bank's 2013-2015 Medium-Term Plan includes $460 million for construction costs. Other one-time costs associated with the relocation of Bank staff during the construction period are also included in the financial plan.

### Board of Directors and Personnel

A complete description of the composition and roles of the Bank's Board of Directors and Management is included in the *2011 Annual Report*.

Membership of the Bank's Management Council includes two Deputy Governors, one from each of the Monetary Policy and Financial System functions. Consistent with the plan to rotate the assignment periodically, Deputy Governors Jean Boivin and Agathe Côté replaced John Murray and Tim Lane as members of the Management Council effective 6 September 2012.

The composition of the Board of Directors did not change during the quarter.

A number of appointments impacting the Board of Directors and Management were announced subsequent to the end of the quarter.

On 26 November 2012, the Bank announced that Her Majesty the Queen has approved the appointment of Mark Carney as Governor of the Bank of England effective 1 July 2013. Governor Carney will continue to serve in his current position until 1 June 2013 to ensure a smooth transition to the next Governor of the Bank of Canada. A Special Committee of independent directors of the Board of Directors will be formed to undertake a recruitment process for the selection of the next Governor.

On 15 October 2012, Deputy Governor Jean Boivin was appointed Associate Deputy Minister at the Department of Finance. The process to select his replacement on the Governing Council and Management Council is underway. In addition, on 6 November 2012 the Minister of Finance announced the appointments of Phyllis Clark and Derek Key to the Board of Directors.

## Risk Analysis

The Risk section of the Management's Discussion and Analysis (MD&A) for the year ended 31 December 2011 outlines the Bank's risk-management framework and risk profile. The key areas of risk—financial risk, enterprise risk, business risk, people risk and operational risk—are reviewed. The financial risks are discussed further in the notes to the 31 December 2011 financial statements, which are included in the *2011 Annual Report*.

As described in the Operational Highlights and Changes above, the Bank will embark on a program to renew its head office facility during the next medium-term plan. The Bank is committed to running this program with effective governance, sound financial management and good stewardship of public funds. The Bank's risk-management profile has been updated to include active monitoring of risks associated with the program.

Other risks identified in the MD&A remain the key risks for the Bank, and no material changes were identified in any of the risk categories or ratings compared with the assessment at year-end.

BANK OF CANADA
BANQUE DU CANADA

Condensed Interim Financial Statements of

# THE BANK OF CANADA

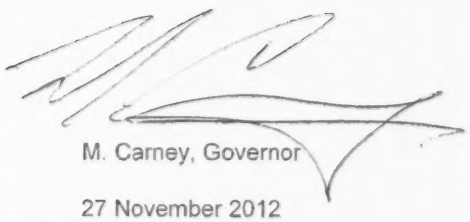
(Unaudited)

as at 30 September 2012
and for the three- and nine-month periods then ended

## MANAGEMENT RESPONSIBILITY

Management is responsible for the preparation and fair presentation of these condensed interim financial statements in accordance with the requirements of International Accounting Standard 34, *Interim Financial Reporting*, and for such internal controls as management determines are necessary to enable the preparation of condensed interim financial statements that are free from material misstatement. Management is also responsible for ensuring that all other information in the quarterly financial report is consistent, where appropriate, with the condensed interim financial statements.

Based on our knowledge, these unaudited condensed interim financial statements present fairly, in all material respects, the financial position, results of operations and cash flows of the corporation, as at the date of and for the periods presented in the condensed interim financial statements.



M. Carney, Governor

S. Vokey, CA, Chief Accountant

27 November 2012
Ottawa, Canada

## CONDENSED INTERIM STATEMENT OF FINANCIAL POSITION (UNAUDITED)

(Millions of Canadian dollars)

| | As at 30 September 2012 | As at 31 December 2011 |
|---|---|---|
| **ASSETS** | | |
| **Cash and foreign deposits** | 4.4 | 11.7 |
| **Loans and receivables** | | |
| Securities purchased under resale agreements | - | 1,447.7 |
| Advances to members of the Canadian Payments Association | 98.0 | 81.5 |
| Other receivables | 2.9 | 1.6 |
| | 100.9 | 1,530.8 |
| **Investments** | | |
| Government of Canada treasury bills | 19,180.0 | 18,545.6 |
| Government of Canada bonds | 53,342.5 | 43,553.3 |
| Other investments | 333.3 | 325.3 |
| | 72,855.8 | 62,424.2 |
| **Property and equipment** (note 5) | 183.7 | 176.6 |
| **Intangible assets** (note 6) | 52.3 | 44.6 |
| **Other assets** (note 7) | 48.3 | 59.3 |
| **Total assets** | 73,245.4 | 64,247.2 |
| **LIABILITIES AND EQUITY** | | |
| **Bank notes in circulation** | 60,342.2 | 61,028.8 |
| **Deposits** (note 8) | | |
| Government of Canada | 10,380.5 | 1,512.5 |
| Members of the Canadian Payments Association | 123.4 | 106.7 |
| Other deposits | 1,438.3 | 861.8 |
| | 11,942.2 | 2,481.0 |
| **Other liabilities** (note 9) | 533.9 | 312.8 |
| | 72,818.3 | 63,822.6 |
| **Equity** (note 11) | 427.1 | 424.6 |
| **Total liabilities and equity** | 73,245.4 | 64,247.2 |

M. Carney, Governor

S. Vokey, CA, Chief Accountant

(See accompanying notes to the Condensed Interim Financial Statements.)

## CONDENSED INTERIM STATEMENT OF COMPREHENSIVE INCOME (UNAUDITED)

(Millions of Canadian dollars)

| | For the three-month period ended 30 September | | For the nine-month period ended 30 September | |
|---|---|---|---|---|
| | 2012 | 2011 | 2012 | 2011 |
| **INCOME** | | | | |
| **Net interest income** | | | | |
| **Interest revenue** | | | | |
| Interest earned on investments | 422.4 | 401.5 | 1,221.4 | 1,212.8 |
| Dividend revenue | - | - | 4.4 | 4.3 |
| Interest earned on securities purchased under resale agreements | 0.2 | 0.1 | 1.3 | 1.1 |
| Other interest revenue | 0.1 | 0.1 | 0.2 | 0.2 |
| | 422.7 | 401.7 | 1,227.3 | 1,218.4 |
| **Interest expense** | | | | |
| Interest expense on deposits | (24.6) | (5.8) | (57.0) | (16.6) |
| | 398.1 | 395.9 | 1,170.3 | 1,201.8 |
| **Other revenue** | 2.3 | 2.3 | 7.2 | 6.9 |
| **Total income** | 400.4 | 398.2 | 1,177.5 | 1,208.7 |
| **EXPENSES** | | | | |
| Staff costs | 41.5 | 34.8 | 130.6 | 117.0 |
| Bank note research, production and processing | 30.8 | 4.3 | 68.1 | 28.0 |
| Premises maintenance | 6.6 | 6.6 | 19.0 | 18.1 |
| Technology and telecommunications | 7.5 | 7.6 | 19.8 | 17.8 |
| Depreciation and amortization | 5.5 | 4.3 | 16.2 | 12.9 |
| Other operating expenses | 18.3 | 19.1 | 56.2 | 57.0 |
| **Total expenses** | 110.2 | 76.7 | 309.9 | 250.8 |
| **NET INCOME** | 290.2 | 321.5 | 867.6 | 957.9 |
| **OTHER COMPREHENSIVE INCOME** | | | | |
| Change in fair value of available-for-sale financial assets | (10.8) | 28.1 | 2.5 | 49.2 |
| Actuarial losses | (41.3) | (93.8) | (91.6) | (93.8) |
| **Other comprehensive income** | (52.1) | (65.7) | (89.1) | (44.6) |
| **COMPREHENSIVE INCOME** | 238.1 | 255.8 | 778.5 | 913.3 |

(See accompanying notes to the Condensed Interim Financial Statements.)

## CONDENSED INTERIM STATEMENT OF CHANGES IN EQUITY (UNAUDITED)

(Millions of Canadian dollars)

| | For the three- and nine-month periods ended 30 September 2012 | | | | | | |
|---|---|---|---|---|---|---|---|
| | Share capital | Statutory reserve | Special reserve | Available-for-sale reserve | Actuarial gains reserve | Retained earnings | Total |
| **Balance, 1 July 2012** | 5.0 | 25.0 | 100.0 | 307.9 | - | - | 437.9 |
| **Comprehensive income for the period** | | | | | | | |
| Net income | - | - | - | - | - | 290.2 | 290.2 |
| Change in fair value of available-for-sale financial assets | - | - | - | (10.8) | - | - | (10.8) |
| Actuarial losses | - | - | - | - | - | (41.3) | (41.3) |
| | - | - | - | (10.8) | - | 248.9 | 238.1 |
| **Transfer to Receiver General for Canada** | - | - | - | - | - | (248.9) | (248.9) |
| **Balance, 30 September 2012** | 5.0 | 25.0 | 100.0 | 297.1 | - | - | 427.1 |
| **Balance, 1 January 2012** | 5.0 | 25.0 | 100.0 | 294.6 | - | - | 424.6 |
| **Comprehensive income for the period** | | | | | | | |
| Net income | - | - | - | - | - | 867.6 | 867.6 |
| Change in fair value of available-for-sale financial assets | - | - | - | 2.5 | - | - | 2.5 |
| Actuarial losses | - | - | - | - | - | (91.6) | (91.6) |
| | - | - | - | 2.5 | - | 776.0 | 778.5 |
| **Transfer to Receiver General for Canada** | - | - | - | - | - | (776.0) | (776.0) |
| **Balance, 30 September 2012** | 5.0 | 25.0 | 100.0 | 297.1 | - | - | 427.1 |

(See accompanying notes to the Condensed Interim Financial Statements.)

## CONDENSED INTERIM STATEMENT OF CHANGES IN EQUITY (UNAUDITED)

(Millions of Canadian dollars)

| | For the three- and nine-month periods ended 30 September 2011 | | | | | | |
|---|---|---|---|---|---|---|---|
| | Share capital | Statutory reserve | Special reserve | Available-for-sale reserve | Actuarial gains reserve | Retained earnings | Total |
| **Balance, 1 July 2011** | 5.0 | 25.0 | 100.0 | 292.1 | 14.1 | - | 436.2 |
| **Comprehensive income for the period** | | | | | | | |
| Net income | - | - | - | - | - | 321.5 | 321.5 |
| Change in fair value of available-for-sale financial assets | - | - | - | 28.1 | - | - | 28.1 |
| Actuarial losses | - | - | - | - | (14.1) | (79.7) | (93.8) |
| | - | - | - | 28.1 | (14.1) | 241.8 | 255.8 |
| **Transfer to Receiver General for Canada** | - | - | - | - | - | (241.8) | (241.8) |
| **Balance, 30 September 2011** | 5.0 | 25.0 | 100.0 | 320.2 | - | - | 450.2 |
| **Balance, 1 January 2011** | 5.0 | 25.0 | 100.0 | 271.0 | 14.1 | 1.7 | 416.8 |
| **Comprehensive income for the period** | | | | | | | |
| Net income | - | - | - | - | - | 957.9 | 957.9 |
| Change in fair value of available-for-sale financial assets | - | - | - | 49.2 | - | - | 49.2 |
| Actuarial losses | - | - | - | - | (14.1) | (79.7) | (93.8) |
| | - | - | - | 49.2 | (14.1) | 878.2 | 913.3 |
| **Transfer to Receiver General for Canada** | - | - | - | - | - | (879.9) | (879.9) |
| **Balance, 30 September 2011** | 5.0 | 25.0 | 100.0 | 320.2 | - | - | 450.2 |

(See accompanying notes to the Condensed Interim Financial Statements.)

## CONDENSED INTERIM STATEMENT OF CASH FLOWS (UNAUDITED)

(Millions of Canadian dollars)

| | For the three-month period ended 30 September | | For the nine-month period ended 30 September | |
|---|---|---|---|---|
| | 2012 | 2011 | 2012 | 2011 |
| **CASH FLOWS FROM OPERATING ACTIVITIES** | | | | |
| Interest received | **203.7** | 207.3 | **1,071.9** | 1,000.5 |
| Dividends received | **-** | 4.3 | **4.4** | 4.3 |
| Other revenue received | **3.2** | 2.8 | **5.7** | 7.4 |
| Interest paid | **(24.6)** | (5.8) | **(57.0)** | (16.6) |
| Payments to or on behalf of employees and to suppliers | **(108.2)** | (80.4) | **(325.8)** | (287.3) |
| Net increase (decrease) in advances to members of the Canadian Payments Association | **(69.4)** | 257.8 | **(16.5)** | 21.6 |
| Net increase in deposits | **2,522.1** | 551.5 | **9,461.4** | 225.2 |
| Proceeds from maturity of securities purchased under resale agreements | **5,020.4** | 3,774.1 | **26,300.7** | 6,759.5 |
| Acquisition of securities purchased under resale agreements | **(5,020.4)** | (3,774.1) | **(24,853.3)** | (4,698.1) |
| Repayments of securities sold under repurchase agreements | **-** | - | **-** | (764.8) |
| Proceeds from securities sold under repurchase agreements | **-** | - | **-** | 764.8 |
| Net cash provided by operating activities | **2,526.8** | 937.5 | **11,591.5** | 3,016.5 |
| **CASH FLOWS FROM INVESTING ACTIVITIES** | | | | |
| Net decrease (increase) in Government of Canada treasury bills | **1,297.8** | 562.2 | **(654.3)** | 3,514.0 |
| Purchases of Government of Canada bonds | **(4,133.1)** | (2,960.6) | **(13,723.9)** | (10,330.2) |
| Proceeds from maturity of Government of Canada bonds | **843.3** | 1,673.7 | **4,100.4** | 4,930.3 |
| Additions of property and equipment | **(6.8)** | (8.6) | **(18.4)** | (13.9) |
| Additions of intangible assets | **(3.6)** | (3.9) | **(12.6)** | (13.6) |
| Net cash used in investing activities | **(2,002.4)** | (737.2) | **(10,308.8)** | (1,913.4) |
| **CASH FLOWS FROM FINANCING ACTIVITIES** | | | | |
| Net increase (decrease) in bank notes in circulation | **(303.1)** | 124.7 | **(686.6)** | (303.2) |
| Remittance of ascertained surplus to the Receiver General for Canada | **(225.0)** | (325.0) | **(603.4)** | (801.1) |
| Net cash used in financing activities | **(528.1)** | (200.3) | **(1,290.0)** | (1,104.3) |
| **EFFECT OF EXCHANGE RATE CHANGES ON FOREIGN CURRENCY** | **(0.2)** | 0.4 | **-** | 0.4 |
| **INCREASE (DECREASE) IN CASH AND FOREIGN DEPOSITS** | **(3.9)** | 0.4 | **(7.3)** | (0.8) |
| **CASH AND FOREIGN DEPOSITS, BEGINNING OF PERIOD** | **8.3** | 3.5 | **11.7** | 4.7 |
| **CASH AND FOREIGN DEPOSITS, END OF PERIOD** | **4.4** | 3.9 | **4.4** | 3.9 |

(See accompanying notes to the Condensed Interim Financial Statements.)

# NOTES TO THE UNAUDITED CONDENSED INTERIM FINANCIAL STATEMENTS OF THE BANK OF CANADA

For the period ended 30 September 2012

(Amounts in the notes to the Condensed Interim Financial Statements of the Bank of Canada are in millions of Canadian dollars, unless otherwise stated.)

## 1. The business of the Bank of Canada

The Bank of Canada (the Bank) is the central bank of Canada. The Bank is a corporation under the Bank of Canada Act and is wholly owned by the Government of Canada and is exempt from income taxes. The Bank is a Government Business Enterprise, as defined by the Public Sector Accounting Board Handbook and, as such, adheres to the standards applicable to publicly accountable enterprises as outlined by the Canadian Institute of Chartered Accountants (CICA).

The responsibilities of the Bank focus on the goals of low and stable inflation, financial system stability, a safe and secure currency, and the efficient management of government funds and public debt. These responsibilities are carried out as part of the broad functions described below.

**Monetary policy**
Contributes to solid economic performance and rising living standards for Canadians by keeping inflation low, stable and predictable.

**Financial system**
Promotes a safe, sound and efficient financial system, both within Canada and internationally.

**Currency**
Designs, produces and distributes Canada's bank notes, focusing on the deterrence of counterfeiting through research on security features, public education and partnership with law enforcement; replaces and destroys worn notes.

**Funds management**
Provides high-quality, effective and efficient funds-management services: for the Government of Canada, as its fiscal agent; for the Bank; and for other clients.

## 2. Basis of preparation

These condensed interim financial statements have been prepared in accordance with International Accounting Standard 34 *Interim Financial Reporting* (IAS 34) as issued by the International Accounting Standards Board (IASB) and using the International Financial Reporting Standards (IFRS) accounting policies the Bank adopted in its financial statements as at and for the year ended 31 December 2011. These condensed interim financial statements do not include all of the information required for full annual financial statements. The condensed interim financial statements and related notes should be read in conjunction with the Bank's audited financial statements for the year ended 31 December 2011. When necessary, the condensed interim financial statements include amounts based on informed estimates and best judgments of management. The results of operations for the interim period reported are not necessarily indicative of results expected for the year.

The Board of Directors approved the condensed interim financial statements on 27 November 2012.

### Measurement base

The condensed interim financial statements have been prepared on the historical cost basis, except for the available-for-sale financial assets, which are measured at fair value, and the defined-benefit assets and obligations, which are recognized as the net of the plan assets, plus unrecognized past service costs, and the present value of the defined-benefit obligation.

### Significant accounting estimates and judgments in applying accounting policies

The preparation of the condensed interim financial statements requires management to make judgments, estimates and assumptions based on information available at the statement date that affect the application of accounting policies and the reported amounts of assets, liabilities, income and expenses. Actual results could differ from these estimates.

Estimates and underlying assumptions are reviewed on an ongoing basis. Revisions to accounting estimates are recognized in the period in which the estimates are revised and in any future periods affected. These estimates are primarily in the area of employee benefit plans and the fair values of certain financial instruments and collateral taken.

### Seasonality

The total value of bank notes in circulation fluctuates throughout the year as a function of the seasonal demand for bank notes. Bank notes in circulation are at their lowest level at the end of the first quarter, and experience peaks in the second and fourth quarters around holiday periods. During periods of high seasonal demand, the Bank may issue term purchase and resale agreements to offset the increased bank note liability.

### Functional and presentation currency

The Bank's functional and presentation currency is the Canadian dollar.

### Fiscal agent and custodial activities

Responsibility for the operational management of the Government of Canada's financial assets and liabilities is borne jointly by the Bank (as fiscal agent for the government) and the Department of Finance. In this fiscal agent role, the Bank provides transactional and administrative support to the Government of Canada in certain areas. The assets, liabilities, expenditures and revenues to which this support relates are those of the Government of Canada and are not included in the condensed interim financial statements of the Bank.

Securities safekeeping and gold custodial activities are provided to foreign central banks and international organizations. The assets and the income arising therefrom are excluded from these condensed interim financial statements, as they are not assets or income of the Bank.

## 3. Significant accounting policies

The accounting policies used in the preparation of the condensed interim financial statements are consistent with those disclosed in the Bank of Canada's financial statements for the year ended 31 December 2011.

### Changes in accounting policies

### IFRS 7

The Bank adopted the amendments to IFRS 7 *Financial Instruments: Disclosures* (IFRS 7), effective 1 January 2012. IFRS 7 was amended in October 2010 to provide additional disclosure on the transfer of financial assets, including the possible effects of any residual risks that the transferring entity retains. These amendments require disclosure relating to the Bank's securities sold under repurchase agreements and securities-lending transactions. There was no material impact on the condensed interim financial statements as a result of these amendments.

## 4. Financial instruments

The Bank's financial instruments consist of cash and foreign deposits, securities purchased under resale agreements, advances to members of the Canadian Payments Association, other receivables, investments (consisting of Government of Canada treasury bills, Government of Canada bonds and shares in the Bank for International Settlements (BIS)), bank notes in circulation, deposits and other liabilities (excluding post-employment and long-term employee benefit obligations).

Cash and foreign deposits, Government of Canada treasury bills, and BIS shares are measured at fair value. All other financial instruments are measured at amortized cost using the effective interest method, with the exception of bank notes in circulation, which are measured at face value.

The carrying amount and fair values of financial assets and liabilities are presented in the following table.

| | 30 September 2012 | | 31 December 2011 | |
|---|---|---|---|---|
| | Carrying amount | Fair value | Carrying amount | Fair value |
| **Financial assets** | | | | |
| Cash and foreign deposits | **4.4** | **4.4** | 11.7 | 11.7 |
| Securities purchased under resale agreements | **-** | **-** | 1,447.7 | 1,447.7 |
| Advances to members of the Canadian Payments Association | **98.0** | **98.0** | 81.5 | 81.5 |
| Other receivables | **2.9** | **2.9** | 1.6 | 1.6 |
| Government of Canada treasury bills | **19,180.0** | **19,180.0** | 18,545.6 | 18,545.6 |
| Government of Canada bonds | **53,342.5** | **58,111.9** | 43,553.3 | 48,511.0 |
| Other investments | **333.3** | **333.3** | 325.3 | 325.3 |
| Total financial assets | **72,961.1** | **77,730.5** | 63,966.7 | 68,924.4 |
| **Financial liabilities** | | | | |
| Bank notes in circulation | **60,342.2** | **60,342.2** | 61,028.8 | 61,028.8 |
| Deposits | **11,942.2** | **11,942.2** | 2,481.0 | 2,481.0 |
| Other financial liabilities | **312.1** | **312.1** | 132.1 | 132.1 |
| Total financial liabilities | **72,596.5** | **72,596.5** | 63,641.9 | 63,641.9 |

## 5. Property and equipment

| | Land and buildings | Computer equipment | Other equipment | Total |
|---|---|---|---|---|
| **2012** | | | | |
| **Cost** | | | | |
| Balances, 1 January 2012 | 218.2 | 30.8 | 99.5 | 348.5 |
| Additions | 15.0 | 2.4 | 1.0 | 18.4 |
| Disposals | - | (2.0) | (2.7) | (4.7) |
| Transfers to other asset categories | 3.1 | - | (3.1) | - |
| Balances, 30 September 2012 | 236.3 | 31.2 | 94.7 | 362.2 |
| **Depreciation** | | | | |
| Balances, 1 January 2012 | (85.1) | (12.1) | (74.7) | (171.9) |
| Depreciation expense | (5.7) | (2.8) | (2.8) | (11.3) |
| Disposals | - | 2.0 | 2.7 | 4.7 |
| Balances, 30 September 2012 | (90.8) | (12.9) | (74.8) | (178.5) |
| **Carrying amounts** | | | | |
| At 1 January 2012 | 133.1 | 18.7 | 24.8 | 176.6 |
| At 30 September 2012 | 145.5 | 18.3 | 19.9 | 183.7 |
| **Projects in progress 2012** | | | | |
| Included in Carrying amounts at 30 September 2012 | 39.6 | 9.3 | 1.4 | 50.3 |
| Additions during 2012 | 15.0 | 1.5 | 0.9 | 17.4 |
| Commitments at 30 September 2012 | 9.8 | 4.2 | 4.4 | 18.4 |

Projects in progress consist primarily of $39.6 million related to the Enhanced Business Continuity initiative (31 December 2011—$26.2 million), $5.4 million related to the Head Office Renewal Program (31 December 2011—$4.9 million), and $2.0 million related to the adaptation of bank note processing equipment (31 December 2011—$1.0 million). The Currency Systems Evolution Program (31 December 2011— $1.2 million) was put in service in 2012 and removed from Projects in progress.

| | Land and buildings | Computer equipment | Other equipment | Total |
|---|---|---|---|---|
| **2011** | | | | |
| **Cost** | | | | |
| Balances, 1 January 2011 | 197.3 | 25.8 | 122.2 | 345.3 |
| Additions | 21.1 | 10.2 | 4.9 | 36.2 |
| Disposals | (0.2) | (5.2) | (27.6) | (33.0) |
| Balances, 31 December 2011 | 218.2 | 30.8 | 99.5 | 348.5 |
| **Depreciation** | | | | |
| Balances, 1 January 2011 | (80.1) | (13.9) | (98.3) | (192.3) |
| Depreciation expense | (5.0) | (3.5) | (4.0) | (12.5) |
| Disposals | - | 5.2 | 27.6 | 32.8 |
| Balances, 31 December 2011 | (85.1) | (12.2) | (74.7) | (171.9) |
| **Carrying amounts** | | | | |
| At 1 January 2011 | 117.2 | 11.9 | 23.9 | 153.0 |
| At 31 December 2011 | 133.1 | 18.6 | 24.8 | 176.6 |
| **Projects in progress 2011** | | | | |
| Included in Carrying amounts at 31 December 2011 | 25.1 | 12.3 | 4.6 | 42.0 |
| Additions during 2011 | 20.5 | 10.2 | 4.4 | 35.1 |
| Commitments at 31 December 2011 | 0.6 | 0.3 | - | 0.9 |

## 6. Intangible assets

| | Internally generated software | Other software | Total |
|---|---|---|---|
| **2012** | | | |
| **Cost** | | | |
| Balances, 1 January 2012 | 42.8 | 40.2 | 83.0 |
| Additions | - | 12.6 | 12.6 |
| Disposals | - | (0.6) | (0.6) |
| Balances, 30 September 2012 | 42.8 | 52.2 | 95.0 |
| **Amortization** | | | |
| Balances, 1 January 2012 | (25.8) | (12.6) | (38.4) |
| Amortization expense | (2.9) | (1.4) | (4.3) |
| Disposals | - | - | - |
| Balances, 30 September 2012 | (28.7) | (14.0) | (42.7) |
| **Carrying amounts** | | | |
| At 1 January 2012 | 17.0 | 27.6 | 44.6 |
| At 30 September 2012 | 14.1 | 38.2 | 52.3 |
| **Projects in progress 2012** | | | |
| Included in Carrying amounts at 30 September 2012 | - | 28.0 | 28.0 |
| Additions during 2012 | - | 11.3 | 11.3 |
| Commitments at 30 September 2012 | - | 0.3 | 0.3 |

Projects in progress consist primarily of $18.9 million related to the Auctions and Market Applications Program (31 December 2011—$11.2 million), $1.5 million related to the adaptation of bank note processing equipment (31 December 2011—$1.5 million) and $6.7 million related to the data-management stream of the Analytic Environment Program (31 December 2011—$4.0 million). The Currency Systems Evolution Program (31 December 2011—$7.8 million) was put in service in 2012 and removed from Projects in progress.

| | Internally generated software | Other software | Total |
|---|---|---|---|
| **2011** | | | |
| **Cost** | | | |
| Balances, 1 January 2011 | 42.8 | 16.8 | 59.6 |
| Additions | - | 23.5 | 23.5 |
| Transfers to other asset categories | - | (0.1) | (0.1) |
| Balances, 31 December 2011 | 42.8 | 40.2 | 83.0 |
| **Amortization** | | | |
| Balances, 1 January 2011 | (21.9) | (11.8) | (33.7) |
| Amortization expense | (3.9) | (0.8) | (4.7) |
| Balances, 31 December 2011 | (25.8) | (12.6) | (38.4) |
| **Carrying amounts** | | | |
| At 1 January 2011 | 20.9 | 5.0 | 25.9 |
| At 31 December 2011 | 17.0 | 27.6 | 44.6 |
| **Projects in progress 2011** | | | |
| Included in Carrying amounts at 31 December 2011 | - | 25.6 | 25.6 |
| Additions during 2011 | - | 23.5 | 23.5 |
| Commitments at 31 December 2011 | 0.9 | - | 0.9 |

## 7. Other assets

| | 30 September 2012 | 31 December 2011 |
|---|---|---|
| Accrued pension benefit asset | - | 31.4 |
| Inventory | 37.6 | 21.7 |
| All other assets | 10.7 | 6.2 |
| **Total other assets** | 48.3 | 59.3 |

## 8. Deposits

The liabilities within *Deposits* consist of $11,942.2 million in Canadian-dollar demand deposits ($2,481.0 million at 31 December 2011). Deposits from the Government of Canada consist of $2,380.5 million for operational balances and $8,000.0 million held for the prudential liquidity management plan. The Bank pays interest on the deposits for the Government of Canada, banks and other financial institutions at market-related rates, and interest expense on deposits is included in the *Statement of Comprehensive Income*.

## 9. Other liabilities

| | 30 September 2012 | 31 December 2011 |
|---|---|---|
| Accrued transfer payment to the Receiver General for Canada | **251.0** | 78.4 |
| Post-employment defined-benefit obligations | | |
| Pension benefit plans | **37.1** | 16.0 |
| Other benefit plans | **184.7** | 164.7 |
| All other liabilities | **61.1** | 53.7 |
| **Total other liabilities** | **533.9** | 312.8 |

The accrued transfer payment to the Receiver General for Canada of $251 million (31 December 2011—$78.4 million) is included in the $776 million transfer to the Receiver General for the nine-month period presented in the *Statement of Changes in Equity* (31 December 2011—$1,067 million). For the nine months ended 30 September 2012, an amount of $78.4 million related to 2011 net income and $525 million related to 2012 net income was remitted to the Receiver General for Canada ($126.1 million related to 2010 net income and $675 million related to 2011 net income was remitted during the nine months ended 30 September 2011).

## 10. Employee benefit plans

Expenses for the employee benefit plans for the three- and nine-month periods ended 30 September are presented in the table below.

| | For the three-month period ended 30 September | | For the nine-month period ended 30 September | |
|---|---|---|---|---|
| | 2012 | 2011 | 2012 | 2011 |
| Pension benefit plans | **3.4** | (0.7) | **9.2** | 2.6 |
| Other employee benefit plans | **3.7** | 3.8 | **11.1** | 10.8 |
| **Total benefit plans** | **7.1** | 3.1 | **20.3** | 13.4 |

Contributions to the employee benefit plans for the three- and nine-month periods ended 30 September are presented in the table below.

| | Pension benefit plans (funded) | | Other benefit plans (unfunded) | |
|---|---|---|---|---|
| | 2012 | 2011 | 2012 | 2011 |
| **For the three-month period ended 30 September** | | | | |
| Employer contributions | **9.9** | 4.2 | - | - |
| Employee contributions | **2.2** | 2.4 | - | - |
| **Total contributions** | **12.1** | 6.6 | - | - |
| **For the nine-month period ended 30 September** | | | | |
| Employer contributions | **31.7** | 32.6 | - | - |
| Employee contributions | **8.5** | 7.2 | - | - |
| **Total contributions** | **40.2** | 39.8 | - | - |

The Bank re-measures its deferred employee benefit plan assets and liabilities at interim periods. During the three- and nine-month periods ended 30 September 2012, the Bank recorded an actuarial

loss of $41.3 million and $91.6 million respectively (30 September 2011—$93.8 million and $93.8 million).

## 11. Equity

The Bank's objectives in managing its capital are in compliance with the Bank of Canada Act and have not changed from the previous year. There are no other externally imposed capital requirements at the end of the reporting period.

The elements of equity are shown in the table below:

| | 30 September 2012 | 31 December 2011 |
|---|---|---|
| Share capital | **5.0** | 5.0 |
| Statutory reserve | **25.0** | 25.0 |
| Special reserve | **100.0** | 100.0 |
| Available-for-sale reserve | **297.1** | 294.6 |
| Actuarial gains reserve | - | - |
| Retained earnings | - | - |
| | **427.1** | 424.6 |

### Share capital

The authorized capital of the Bank is $5.0 million divided into 100,000 shares with a par value of $50 each. The shares are fully paid and have been issued to the Minister of Finance, who is holding them on behalf of the Government of Canada.

### Statutory reserve

The statutory reserve was accumulated out of net income until it reached the stipulated maximum amount of $25.0 million in 1955.

### Special reserve

The special reserve was created in 2007 further to an amendment to the Bank of Canada Act to offset potential unrealized valuation losses due to changes in the fair value of the Bank's available-for-sale portfolio. The amount held in the special reserve is reviewed regularly for appropriateness using value-at-risk analysis and scenario-based stress tests and may be amended, pursuant to a resolution passed by the Board of Directors. The value-at-risk analysis uses historical data to estimate the maximum possible extent of unrealized valuation losses related to the Bank's treasury bill portfolio. The scenario-based stress tests assess the impact of a rapid increase in interest rates on the value of the Bank's treasury bill portfolio. This reserve is subject to a ceiling of $400 million; an initial amount of $100 million was established in September 2007.

### Available-for-sale reserve

The available-for-sale reserve represents cumulative movements in the fair value of the Bank's available-for-sale portfolio, as shown below.

| | 30 September 2012 | 31 December 2011 |
|---|---|---|
| Government of Canada treasury bills | **1.8** | 7.4 |
| BIS shares | **295.3** | 287.2 |
| **Available-for-sale reserve** | **297.1** | 294.6 |

### Actuarial gains reserve

The actuarial gains reserve was established on 1 January 2010 at an initial amount of $119.7 million to cover net actuarial losses and to accumulate the net actuarial gains related to the Bank's post-employment defined-benefit plans.

| | 30 September 2012 | 31 December 2011 |
|---|---|---|
| Actuarial gains reserve established on 1 January 2010 | **119.7** | 119.7 |
| Accumulated net actuarial losses applied to the reserve | **(119.7)** | (119.7) |
| **Actuarial gains reserve** | **-** | - |

### Retained earnings

The net income of the Bank, less any allocation to reserves, is considered to be ascertained surplus and is transferred to the Receiver General for Canada, consistent with the requirement of Section 27 of the Bank of Canada Act.

Based on an agreement signed with the Minister of Finance, the Bank will deduct from its remittances to the Receiver General and applied against *Retained earnings* an amount equal to unrealized losses on available-for-sale financial assets, unrealized actuarial losses on post-employment benefit plans and other unrealized or non-cash losses.

## 12. Related parties

The Bank is related in terms of common ownership to all Government of Canada departments, agencies and Crown corporations. To achieve its monetary policy objectives, the Bank maintains a position of structural and functional independence from the Government of Canada through its ability to fund its own operations without external assistance and through its management and governance.

In the normal course of its operations, the Bank enters into transactions with related parties, and material transactions and balances are presented in these financial statements. Not all transactions between the Bank and government-related entities have been disclosed, as permitted by the partial exemption available to wholly owned government entities in International Accounting Standard 24 *Related Parties* (IAS 24).

The Bank provides funds-management, fiscal agent and banking services to the Government of Canada, as mandated by the Bank of Canada Act, and does not recover the costs of these services.